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SENSITIVE

DEPT PLEASE PASS TO US EPA STEVE JOHNSON AND CHARLIE AUER
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SUBJECT: REACH: ITALIAN CHEMICALS INDUSTRY'S STRATEGY
DURING EU PRESIDENCY

SBU- Not for internet distribution.

1. (U) This is an action request. Please see para 7.

2. (SBU) Begin summary. On July 24, SCI Officers met with Francesca Poggiali (please protect), a Federchimica official responsible for External Affairs, who is working as a consultant to the Italian Ministry of Productive Activities assisting in the Presidency's work on REACH, the EU's proposed chemicals policy. Federchimica, the Italian national association of chemical companies and the primary voice of the chemical industry, is wary of the new policy and expects it to have a negative economic impact on Italy. SCI Officers received an advance copy of an economic impact assessment conducted by Federchimica, which will be publicly released in September. The Federchimica official also shared the Italian Presidency's strategy on REACH for the coming months: see para 4 & 5. End summary.

New Economic Impact Study

3. (U) Italy is heavily dependent on the economic contribution of the chemicals industry and thus the effects of the highly restrictive REACH legislation would be acutely felt. The Italian chemicals industry employs 133,000 people and when combined with the pharmaceuticals industry, the figure rises to 206,000. The chemicals industry accounts for 6% of total turnover in the manufacturing industry in Italy. In 2002, the chemicals industry turned over 44.1 billion euros in production, about 3.07% of the Italian GDP (\$1.438 trillion in 2002). Federchimica's study of the economic impact of REACH in Italy reports that it could be up to 50% worse than the impact on Germany and France. This is because Italy has more specialized sectors, such as fashion textiles, leather, consumer goods, automobiles, etc, which depend on inputs from the chemicals sector. The best case scenario might mean a loss of 0.7% of GDP for Italy because of REACH, while the worse case scenario might mean a devastating loss of up to 7% of GDP. This wide variation in impact depends on modeling assumptions about the effects of REACH as they extend throughout the manufacturing sector in Italy.

Italian Industry Prefers to Send REACH to Competitiveness Council

4. (SBU) In addition to the dire economic predictions, Federchimica is very concerned about the effect REACH could have on competitiveness, and thus would prefer that DG Enterprise oversee and mold the final Commission proposal. However, there is currently a "tug of war" between the Ministry of Environment and the Ministry of Productive Activities for control of Italian leadership of the EU proposal. The chemicals industry is looking to the Competitiveness Council as a way to ensure that the key issue of competitiveness is properly considered.

5. (SBU) According to Federchimica, the Commission should have the final REACH proposal ready by the end of October for consideration by the Council of Ministers. However, the Italian chemicals industry is hoping that the Commission's work will not be finished in time for the Environmental Council to debate REACH at their meeting on October 27. Thus, consideration of REACH would fall to the Competitiveness Council when it meets later in November (Nov. 10-11 and Nov. 27). Federchimica hopes this juggling of dates and timing will allow the REACH proposal to be shaped more by the Competitiveness Council than the Environmental Council.

Planned Presidency Meetings

6. (SBU)

September 22-23: the Ministry of Productive Activities will

officially present the results of the Italian economic impact study at the Competitiveness Council meeting

October 17 (tentative): the Italian Presidency is planning to host a meeting of the EU High Level Competitiveness Group in

Venice. The USG has been invited to help organize and to participate in this meeting.

October 27: meeting of Environment Council

Late October/early November: Confindustria, the parent organization of Federchimica, will present its views on REACH to the EU Parliament

November 10-11: meeting of the Competitiveness Council

November 27: meeting of the Competitiveness Council

17. (U) Action requested: As noted above, the USG through the Embassy has been invited to the October 17 meeting. EPA and Department are asked to consider and suggest appropriate people from Washington to attend this meeting. Please contact EST Counselor at Embassy Rome with suggestions. Embassy will forward further details, draft agenda and list of other invited participants when they become available (early September).

18. (U) This cable has been prepared by Rome Embassy SCI Intern Lisa George.
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